

PACCAR INC  
Form DEF 14A  
March 14, 2014  
Table of Contents

## SCHEDULE 14A INFORMATION

### PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Definitive Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

## PACCAR INC

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

## Edgar Filing: PACCAR INC - Form DEF 14A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:



**Table of Contents**

March 14, 2014

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of PACCAR Inc, which will be held at the Meydenbauer Center, 11100 N.E. 6th Street, Bellevue, Washington, at 10:30 a.m. on Tuesday, April 29, 2014.

The principal business of the Annual Meeting is stated on the attached Notice of Annual Meeting of Stockholders. We will also provide an update on the Company's activities. The Board of Directors recommends a vote **FOR** all Director Nominees listed in Item 1, **FOR** Items 2 and 3 and **AGAINST** Item 4.

Your **VOTE** is important. Whether or not you plan to attend the Annual Meeting, please vote your proxy either by mail, telephone or over the Internet.

Sincerely,

Mark C. Pigott

Chairman of the Board and

Chief Executive Officer

**Table of Contents**

**Notice of Annual Meeting of Stockholders**

The Annual Meeting of Stockholders of PACCAR Inc will be held at 10:30 a.m. on Tuesday, April 29, 2014, at the Meydenbauer Center, 11100 N.E. 6th Street, Bellevue, Washington, for these purposes:

1. To elect as directors the four Class I nominees named in the attached proxy statement to serve three-year terms ending in 2017.
2. To approve the Second Amended and Restated Restricted Stock and Deferred Compensation Plan for Non-Employee Directors.
3. To vote on an advisory resolution to approve executive compensation.
4. To vote on a stockholder proposal regarding the supermajority vote provisions.
5. To transact such other business as may properly come before the meeting.

Stockholders entitled to vote at this meeting are those of record as of the close of business on March 4, 2014.

**IMPORTANT: The vote of each stockholder is important regardless of the number of shares held. Whether or not you plan to attend the meeting, please complete and return your proxy form.**

**Directions to the Meydenbauer Center can be found on the back cover of the attached proxy statement.**

By order of the Board of Directors

J. M. D. Amato

Secretary

Bellevue, Washington

March 14, 2014

**Table of Contents**

**TABLE OF CONTENTS**

<u>General Information</u>	1
<u>Voting Rights</u>	1
<u>Voting by Proxy</u>	1
<u>Proxy Voting Procedures</u>	1
<u>Online Availability of Annual Meeting Materials</u>	2
<u>Multiple Stockholders Sharing the Same Address</u>	2
<u>Vote Required and Method of Counting Votes</u>	2
<u>Stock Ownership of Certain Beneficial Owners</u>	3
<u>Stock Ownership of Directors and Executive Officers</u>	4
<u>Expenses for Solicitation</u>	5
<b><u>Item 1: Election of Directors</u></b>	5
<u>Board Governance</u>	8
<u>Compensation of Directors</u>	11
<b><u>Item 2: Restricted Stock and Deferred Compensation Plan for Non-Employee Directors</u></b>	12
<u>Equity Compensation Plan Information</u>	14
<u>Policies and Procedures for Transactions with Related Persons</u>	15
<u>Compensation of Executive Officers</u>	15
<u>Compensation Discussion and Analysis (CD&amp;A)</u>	15
<u>Compensation Committee Report</u>	25
<u>Summary Compensation</u>	25
<u>Grants of Plan-Based Awards</u>	27
<u>Outstanding Equity Awards at Fiscal Year-End</u>	28
<u>Option Exercises and Stock Vested</u>	29
<u>Pension Benefits</u>	30
<u>Nonqualified Deferred Compensation</u>	31
<u>Potential Payments Upon Termination or Change in Control</u>	32
<b><u>Item 3: Advisory Resolution to Approve Executive Compensation</u></b>	34
<u>Audit Committee Report</u>	36
<u>Independent Auditors</u>	37
<u>Stockholder Return Performance Graph</u>	38
<u>Stockholder Proposals</u>	39
<b><u>Item 4: Stockholder Proposal Regarding the Supermajority Vote Provisions</u></b>	39
<u>Board of Directors Response</u>	40
<u>Stockholder Proposals and Director Nominations for 2015</u>	42
<u>Other Business</u>	42
<u>Map and Directions to Meydenbauer Center</u>	Back Cover

**Table of Contents**

**PROXY STATEMENT**

The Board of Directors of PACCAR Inc issues this proxy statement to solicit proxies for use at the Annual Meeting of Stockholders at 10:30 a.m., local time, on Tuesday, April 29, 2014, at the Meydenbauer Center in Bellevue, Washington. This proxy statement includes information about the business matters that will be voted upon at the meeting. The executive offices of the Company are located at 777 106<sup>th</sup> Avenue N.E., Bellevue, Washington 98004. This proxy statement and proxy form were first sent to stockholders on or about March 14, 2014.

**GENERAL INFORMATION**

**Voting Rights**

Stockholders eligible to vote at the meeting are those identified as owners at the close of business on the record date, March 4, 2014. Each outstanding share of common stock is entitled to one vote on all items presented at the meeting. At the close of business on March 4, 2014, the Company had 354,642,630 shares of common stock outstanding and entitled to vote.

Stockholders may vote in person at the meeting or by proxy. Execution of a proxy does not affect the right of a stockholder to attend the meeting. **The Board recommends that stockholders exercise their right to vote by promptly completing and returning the proxy form either by mail, telephone or the Internet.**

**Voting by Proxy**

Mark C. Pigott and John M. Fluke, Jr. are designated proxy holders to vote shares on behalf of stockholders at the 2014 Annual Meeting. The proxy holders are authorized to:

vote shares as instructed by the stockholders who have properly completed and returned the proxy form;

vote shares as recommended by the Board when stockholders have executed and returned the proxy form, but have given no instructions; and

vote shares at their discretion on any matter not identified in the proxy form that is properly brought before the Annual Meeting. The Trustee for the PACCAR Inc Savings Investment Plan (the SIP) votes shares held in the SIP according to each member's instructions on the proxy form. If no voting instructions are received, the Trustee will vote the shares in direct proportion to the shares for which it has received timely voting instructions, as provided in the SIP.

**Proxy Voting Procedures**

The proxy form allows registered stockholders to vote in one of three ways:

*Mail.* Stockholders may complete, sign, date and return the proxy form in the pre-addressed, postage-paid envelope provided.

*Telephone.* Stockholders may call the toll-free number listed on the proxy form and follow the voting instructions given.

*Internet.* Stockholders may access the Internet address listed on the proxy form and follow the voting instructions given.





## **Table of Contents**

Telephone and Internet voting procedures authenticate each stockholder by using a control number. The voting procedures will confirm that your instructions have been properly recorded. Stockholders who vote by Telephone or Internet should not return the proxy form.

Stockholders who hold shares through a broker or agent should follow the voting instructions received from that broker or agent.

*Revoking Proxy Voting Instructions.* A proxy may be revoked by a later-dated proxy or by written notice to the Secretary of the Company at any time before it is voted. Stockholders who hold shares through a broker should contact the broker or other agent if they wish to change their vote after executing the proxy.

### **Online Availability of Annual Meeting Materials**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Stockholder Meeting to be held at 10:30 a.m. on April 29, 2014, at Meydenbauer Center, Bellevue, Washington. The 2014 proxy statement and the 2013 Annual Report to stockholders are available on the Company's website at [www.paccar.com/2014annualmeeting/](http://www.paccar.com/2014annualmeeting/).**

Stockholders who hold shares in a bank or brokerage account who previously elected to receive the annual meeting materials electronically and now wish to change their election and receive paper copies may contact their bank or broker to change their election.

Stockholders who receive annual meeting materials electronically will receive a notice when the proxy materials become available with instructions on how to access them over the Internet.

### **Multiple Stockholders Sharing the Same Address**

Registered stockholders at a shared address who would like to discontinue receipt of multiple copies of the annual report and proxy statement in the future should contact Wells Fargo Shareowner Services at 1.877.602.7615 or P.O. Box 64854, St. Paul, Minnesota 55164-0854. Street name stockholders at a shared address who would like to discontinue receipt of multiple copies of the annual report and proxy statement in the future should contact their bank or broker.

Some street name stockholders elected to receive one copy of the 2013 Annual Report and 2014 Proxy Statement at a shared address prior to the 2014 Annual Meeting. If those stockholders now wish to change that election, they may do so by contacting their bank, broker, or PACCAR at 425.468.7520 or P.O. Box 1518, Bellevue, Washington 98009.

### **Vote Required and Method of Counting Votes**

The presence at the Annual Meeting, in person or by duly authorized proxy, of a majority of all the stock issued and outstanding and having voting power shall constitute a quorum for the transaction of business. Abstentions are counted as shares present at the meeting.

### **Item 1: Election of Directors**

In an uncontested director election, each director nominee shall be elected by the affirmative vote of the majority of the votes cast with respect to that director's election at any meeting for the election of directors at which a quorum is present. A majority of votes cast means that the number of shares voted for a director's election exceeds 50 percent of the number of votes cast with respect to that director's election. Votes cast include direction to withhold authority but exclude abstentions and broker nonvotes with respect to that director's election. Pursuant to Company bylaws, an incumbent director that is not elected by a majority vote will tender his

**Table of Contents**

or her resignation subject to acceptance by the Board. The Company's Certificate of Incorporation does not provide for cumulative voting. Proxies signed, dated and returned unmarked will be voted **FOR** all of the Nominees for Class I Director. **Please note that brokers and custodians may no longer vote on the election of directors in the absence of specific client instruction. Those who hold shares in such accounts are encouraged to provide voting instructions to the broker or custodian.**

If any nominee is unable to act as director because of an unexpected occurrence, the proxy holders may vote the proxies for another person or the Board of Directors may reduce the number of directors to be elected.

**Items 2, 3 and 4:**

To be approved, Items 2, 3 and 4 must receive the affirmative vote of a majority of shares present in person or by proxy and entitled to vote at the Annual Meeting. Abstentions will have the effect of a vote against each item. Broker nonvotes do not affect the voting calculations.

Proxies signed, dated and returned unmarked will be voted **FOR** all Director Nominees listed in Item 1, **FOR** Items 2 and 3 and **AGAINST** Item 4.

**STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

The following persons are known to the Company to be the beneficial owner of five percent or more of the Company's common stock as of December 31, 2013 (amounts shown are rounded to whole shares):

Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Class
Bank of America Corporation 100 North Tryon Street  Bank of America Corporate Center  Charlotte, NC 28255	21,903,895(a)	6.19
BlackRock, Inc. 40 East 52nd Street  New York, NY 10022	19,252,730(b)	5.40
JP Morgan Chase & Co 270 Park Avenue  New York, NY 10017	22,875,042(c)	6.40

- (a) Bank of America and its subsidiaries reported on Schedule 13G filed February 14, 2014 that it has shared voting power over 14,344,596 shares and shared dispositive power over 21,901,030 shares.
- (b) BlackRock, Inc. and its subsidiaries reported on Schedule 13G filed January 30, 2014 that it has sole voting power over 16,144,046 shares and sole dispositive power over 19,252,730 shares.
- (c) JP Morgan Chase & Co. and its subsidiaries reported on Schedule 13G filed January 17, 2014 that it has sole voting power over 20,176,724 shares; shared voting power over 794,923 shares; sole dispositive power over 21,970,534 shares and shared dispositive power over 904,508 shares.



**Table of Contents****STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS**

The following list includes all shares of the Company's common stock beneficially owned by each Company director, director nominee, and Named Executive Officer, and by Company directors and executive officers as a group as of March 4, 2014 (amounts shown are rounded to whole share amounts).

Name	Shares Beneficially Owned	Percent of Class
Ronald E. Armstrong	199,844(a)	*
Alison J. Carnwath	20,522(b)	*
Robert J. Christensen	178,219(a)	*
John M. Fluke, Jr.	33,716(b)	*
Kirk S. Hachigian	15,324(b)	*
Luiz Kaufmann	14,693(b)	*
Roderick C. McGeary	5,194(b)	*
John M. Pigott	3,603,011(b)(c)	1.02
Mark C. Pigott	5,634,133(d)	1.59
Harrie C. Schippers	42,826(a)	*
Mark A. Schulz	6,635(b)	*
Daniel D. Sobic	202,673(a)	*
Gregory M. E. Spierkel	16,152(b)	*
Charles R. Williamson	43,979(b)	*
Total of all directors and executive officers as a group (20 individuals)	9,039,719	2.55

\*Does not exceed one percent.

- (a) Includes shares allocated in the Company's SIP for which the participant has sole voting and investment power as follows: R. E. Armstrong 17,832; R. J. Christensen 20,337; D. D. Sobic 24,892. Includes restricted shares for which the participant has voting power as follows: R. E. Armstrong 15,680; R. J. Christensen 11,190; H. C. Schippers 3,673; D. D. Sobic 10,605. Also includes options to purchase shares exercisable as of March 4, 2014, as follows: R. E. Armstrong 123,729; R. J. Christensen 129,622; H. C. Schippers 35,104; D. D. Sobic 143,946.
- (b) Includes shares in the Restricted Stock and Deferred Compensation Plan for Non-Employee Directors (the RSDC Plan) over which the participant has sole voting but no investment power. Also includes deferred stock units without voting rights to be settled in shares of common stock as follows: J. M. Fluke, Jr. 8,401; K. S. Hachigian 15,324; L. Kaufmann 9,693; R. C. McGeary 5,194; J. M. Pigott 13,389; M. A. Schulz 1,710; G. M. E. Spierkel 16,152; C. R. Williamson 25,608.
- (c) Includes shares held in the name of a spouse and/or children to which beneficial ownership is disclaimed. Includes the same 1,308,892 shares reported by M. C. Pigott which are owned by a corporation over which he has no voting or investment power. These shares are reported once in the total ownership summary.
- (d) Includes 73,514 shares allocated in the Company's SIP for which he has sole voting and investment power; 67,127 restricted shares for which he has sole voting power; and 1,308,892 shares owned by a corporation over which he has no voting or investment power. Also includes options to purchase 952,936 shares exercisable as of March 4, 2014, and deferred cash awards accrued as 165,151 stock units without voting rights under the Deferred Compensation Plan and the Long Term Incentive Plan that are settled in shares of common stock. Includes shares held in the name of a spouse and/or children to which beneficial ownership is disclaimed.



**Table of Contents**

**EXPENSES FOR SOLICITATION**

Expenses for solicitation of proxies will be paid by the Company. Solicitation will be by mail, except for any electronic, telephone or personal solicitation by directors, officers and employees of the Company, which will be made without additional compensation. The Company has retained AST Phoenix Advisors to aid in the solicitation of stockholders for a fee of approximately \$8,500 plus reimbursement of expenses. The Company will request banks and brokers to solicit proxies from their customers and will reimburse those banks and brokers reasonable out-of-pocket costs for this solicitation.

**ITEM 1: ELECTION OF DIRECTORS**

Four Class I directors are to be elected at the meeting. The persons named below have been designated by the Board as nominees for election as Class I directors for a term expiring at the Annual Meeting of Stockholders in 2017. All of the nominees are currently serving as directors of the Company.

**BOARD NOMINEES FOR CLASS I DIRECTOR**

**(TERMS EXPIRE AT THE 2017 ANNUAL MEETING)**

JOHN M. FLUKE, JR., age 71, is chairman of Fluke Capital Management, L.P., a private investment company, and has held that position since 1990. He is also interim principal executive officer and a director of CellCyte Genetics Corporation, a biotechnology company, and has held that position since 2008. He has served as chairman of Pregon Inc., a biotechnology company, since 2011 and a director of Greystone Energy Inc. since 2006, Supercritical Technologies, Inc. since 2011 and MicroPlanet Technologies, Inc. since 2013. He previously served as a director of Tully's Coffee Corporation (2005-2011). He has served as a director of the Company since 1984. Mr. Fluke has the attributes and qualifications listed in the Company guidelines for board membership including a master's degree in engineering from Stanford, a background in manufacturing gained through 24 years with Fluke Corporation, a manufacturer and distributor of high-quality electronic test tools, including four years as CEO and six years as chairman, extensive knowledge of Company operations, and many years as an advisor to or board member for companies engaged in commercializing emerging technologies.

KIRK S. HACHIGIAN, age 54, was chairman, president and chief executive officer of Cooper Industries plc., a \$5.8 billion global manufacturer of electrical products, from 2006 until it was acquired by Eaton Corporation in 2012. Since 2013 he has served as a principal of SkyKarr Capital LLC, a private investment firm. He has been named chairman, president and chief executive officer of JELD-WEN, a global manufacturer of windows and doors, effective April 1, 2014. He serves as lead director for Allegion plc (2013), and is a director of NextEra Energy Inc. (2013). He has served as a director of the Company since 2008. Mr. Hachigian has the attributes and qualifications listed in the Company guidelines for board membership including a degree in engineering from UC Berkeley and an MBA from the University of Pennsylvania's Wharton School. Prior to his 11 years of service with Cooper, he served eight years as an executive with General Electric Corporation including two years in Mexico and three years in Asia.

RODERICK C. MCGEARY, age 63, served in consulting and audit roles with KPMG LLP from 1972 to 2000 culminating in the position as co-vice chairman of consulting (1997-1999). He was chairman of BearingPoint Inc., formerly KPMG Consulting, LLC, a management and technology consulting firm, from 2004 to 2009 and was its interim chief executive officer from 2004 to 2005. BearingPoint filed for protection under Chapter 11 of the U.S. Bankruptcy Code in February 2009 and its plan under Chapter 11 was declared effective as of December 30, 2009. He has served as a director of Cisco Systems since 2003. He previously served as non-executive chairman of Tegile Systems, Inc. (2010-2012) and as a director of Dionex Corporation (2004-2011) and National Semiconductor Corporation (2009-2011). He has served as a director of the Company since 2012. Mr. McGeary has the attributes and qualifications listed in the Company guidelines for board membership including a B.S. degree in accounting from Lehigh University, strong experience as a certified public accountant and extensive experience in management and technology consulting.

---

**Table of Contents**

MARK A. SCHULZ, age 61, served as president of international operations at Ford Motor Company from 2005 until his retirement in 2007. He is currently president and chief executive officer of M. A. Schulz and Associates, a management consulting firm, and a founding partner in Fontinalis Partners, LLC, a transportation technology strategic investment firm. He has served as a director of Dana Holdings Corporation since 2008 and previously served as a director of YRC Worldwide, Inc. (2007-2009), and as a director of the National Committee of United States-China Relations and the United States-China Business Council. He has served as a director of the Company since 2012. Mr. Schulz has the attributes and qualifications listed in the Company guidelines for board membership including engineering degrees from Valparaiso University and the University of Michigan, an MBA from the University of Detroit, an M.S. in management from the Massachusetts Institute of Technology as well as over 30 years of management experience in the automotive industry worldwide.

**CLASS II DIRECTORS (TERMS EXPIRE AT THE 2015 ANNUAL MEETING)**

MARK C. PIGOTT, age 60, is Chairman and Chief Executive Officer of the Company and has held that position since January 1997. Effective April 27, 2014, Mr. Pigott will assume the position of Executive Chairman of the Board of Directors. Mr. Pigott was a Vice Chairman of the Company from January 1995 to December 1996, Executive Vice President from December 1993 to January 1995, Senior Vice President from January 1990 to December 1993, and Vice President from October 1988 to December 1989. He has served as a director of Franklin Resources Inc., an investment management company since 2011. He is the brother of John M. Pigott, a director of the Company. He has served as a director of the Company since 1994. Mr. Pigott has the attributes and qualifications listed in the Company guidelines for board membership including engineering and business degrees from Stanford University, thorough knowledge of the global commercial vehicle industry and an outstanding record of profitable growth generated through 35 years with the Company. PACCAR has benefited from an excellent record of industry-leading stockholder returns generated under his leadership.

CHARLES R. WILLIAMSON, age 65, has served as chairman of the board of Weyerhaeuser Company, a forest products company, and of Talisman Energy Inc., a Canadian oil and gas company, since 2009. He served as chairman and chief executive officer of Unocal, the California-based energy company, from 2001 until Unocal merged with Chevron in August 2005. Mr. Williamson was the chairman of the US-ASEAN Business Council (2002-2005). He has served as a director of the Company since 2006 and was elected to be PACCAR lead director in 2014. Mr. Williamson has the attributes and qualifications listed in the Company guidelines for board membership including a Ph.D in geology from the University of Texas at Austin and a 28-year career in technical and management positions with Unocal around the world that provided a broad perspective on international markets in Europe and Asia and culminated in four years as its chairman and chief executive.

***Incoming Class II Director***

RONALD E. ARMSTRONG, age 59, is President of PACCAR Inc and has held that position since January 2011. Mr. Armstrong served as Executive Vice President of the Company from August to December 2010, Senior Vice President from December 2007 to July 2010, and Vice President from November 2002 to July 2010. Previously, he was a senior manager with Ernst & Young where he worked for 16 years. Mr. Armstrong was elected by the Board to serve as PACCAR's Chief Executive Officer and a Class II director effective April 27, 2014. Mr. Armstrong has the attributes and qualifications listed in the Company guidelines for board membership. He is a certified public accountant, has a degree in Accounting from the University of Central Oklahoma, and thorough knowledge of commercial vehicle financing and global operations gained through 20 years with the Company.

---

**Table of Contents**

**CLASS III DIRECTORS (TERMS EXPIRE AT THE 2016 ANNUAL MEETING)**

DAME ALISON J. CARNWATH, age 61, is chairman of Land Securities plc, the United Kingdom's largest property company listed on the London Stock Exchange, a senior adviser to Evercore Partners, an independent corporate finance advisory firm (formerly known as Lexicon Partners), and chairman of the management board and investment committee at ISIS Equity Partners, LLP, a private equity firm, all based in the United Kingdom. She has served as a director of Zurich Insurance Group since 2011. She previously served as non-executive chairman of MF Global Holdings Ltd, (2008-2010); and as a director of the Man Group plc (2001-2013), Malachite, a UK consulting firm (2010-2012), Barclays plc (2010-2012), and Friends Provident plc (2002-2008), all United Kingdom based companies. She has served as a director of the Company since 2005. Dame Alison Carnwath has the attributes and qualifications listed in the Company guidelines for board membership including certification as a chartered accountant, service as chairman (1999-2004) and chief executive (2001) of the Vitec Group plc, a British supplier to the broadcast industry, and 32 years' experience in international finance and investment banking including three years as a managing director of Donaldson, Lufkin and Jenrette (1997-2000).

LUIZ KAUFMANN, age 68, is managing partner of L. Kaufmann Consultants in Sao Paulo, Brasil, a company which provides investment banking services and operational leadership in mergers and acquisitions. He currently serves as CEO and a director of El Tejar Limited, a Bermuda-based company that has agriculture and livestock operations in South America. He also serves on the advisory council for Banco Modal, E02 and Endless Mobile. He served as president and CEO of Kroton Educacional (2009-2010) and as President and CEO (2006-2008) and as a director (2001-2006) of Medial Saude. He is a director of GOL, a Brazilian airline, since 2004 and previously served as a director of several Brazilian companies including Vivo, the largest mobile telecom company in Brasil (2005-2009). He has served as a director of the Company since 2012. Mr. Kaufmann has the attributes and qualifications listed in the Company guidelines for board membership including an engineering degree from the Federal University of Paraná and a master's degree in industrial engineering from the Illinois Institute of Technology. He previously held CEO positions at several Brazilian companies including Aracruz Celulose, the largest eucalyptus pulp producer in the world (1993-1998), and Grupo Multiplic (1985-1990), a diversified financial group. He also served as the managing director of Arthur D. Little in Brasil (1977-1984).

JOHN M. PIGOTT, age 50, is a partner in Beta Business Ventures, LLC, a private investment company concentrating in natural resources, and was a partner in the predecessor company Beta Capital Group, LLC, since 2003. He is the brother of Mark C. Pigott, a director of the Company. He has served as a director of the Company since 2009. Mr. Pigott has the attributes and qualifications listed in the Company guidelines for board membership including an engineering degree from Stanford and an MBA from UCLA, a background in manufacturing gained through 12 years with the Company including five years as a senior manager of Company truck operations in the United Kingdom and in the United States. He is a substantial long-term stockholder in the Company.

GREGORY M. E. SPIERKEL, age 57, served as chief executive officer of Ingram Micro Inc., a \$34 billion worldwide distributor of technology products, from 2005 to 2012. He previously served as president from March 2004 to April 2005. During his 14-year tenure with that company he held other senior positions including executive vice president. He was also a director of Ingram Micro (2005-2012). He has served as a director of MGM Resorts International since 2013. He has served as a director of the Company since 2008. Mr. Spierkel has the attributes and qualifications listed in the Company guidelines for board membership including an MBA from Georgetown University and 32 years of management experience around the world including seven years as chief executive of Ingram Micro.

**THE BOARD RECOMMENDS A VOTE FOR EACH OF THE NOMINEES.**



---

**Table of Contents**

**BOARD GOVERNANCE**

The Board of Directors has determined that the following persons served as independent directors in 2013 as defined by NASDAQ Rule 5605(a)(2): Alison J. Carnwath, John M. Fluke, Jr., Kirk S. Hachigian, Luiz Kaufmann, Roderick C. McGeary, Mark A. Schulz, Gregory M. E. Spierkel, Warren R. Staley and Charles R. Williamson.

The Board of Directors maintains a corporate governance section on the Company's website, which includes key information about its governance practices. The Company's Corporate Governance Guidelines, its Board committee charters and its Code of Business Conduct and Code of Ethics for Senior Financial Officers are located at [www.paccar.com/company/corporateresponsibility/boardofdirectors.asp](http://www.paccar.com/company/corporateresponsibility/boardofdirectors.asp).

The Board of Directors approved a change to the Company bylaws, effective April 27, 2014, to allow the role of chairman of the board and chief executive officer to be held by different persons. Effective April 27, 2014, the current Chairman and Chief Executive Officer, M. C. Pigott, will assume the position of Executive Chairman of the Board and R. E. Armstrong will become Chief Executive Officer.

The Company has policies to ensure a strong and independent board. The Board regularly meets in executive session without management. W. R. Staley served as lead director in 2013. C. R. Williamson was elected as lead director when Mr. Staley retired on January 13, 2014. Eighty percent of the Company's ten current directors are independent as defined under NASDAQ regulations.

The Board believes this leadership structure is appropriate because it effectively allocates authority, responsibility and oversight between management, the Chairman and the independent members of the Board. The leadership structure, in which the roles of Chairman and CEO are separate, together with an experienced and engaged lead director and independent key committees, will be effective and is the optimal structure for the Company and stockholders at this time.

The Board oversees risk through management presentations at Board meetings and through its Audit, Compensation and Nominating and Governance Committees. The Audit Committee charter provides that the Committee shall discuss with management the Company's risk exposures and the steps management has taken to monitor and control such exposures. As part of this process, the Committee receives periodic reports from the Company's internal auditor and from its general counsel and the committee reports to the full Board at least twice a year. The Compensation Committee oversees risk arising from the Company's compensation programs and annually reviews how those programs manage and mitigate risk. The Nominating and Corporate Governance Committee oversees potential risks regarding governance by monitoring legal developments and trends.

Stockholders may contact the Board of Directors by writing to: The Board of Directors, PACCAR Inc, 11th Floor, P.O. Box 1518, Bellevue, WA 98009, or by e-mailing [PACCAR.Board@paccar.com](mailto:PACCAR.Board@paccar.com). The Corporate Secretary will receive, process and acknowledge receipt of all written stockholder communications. Suggestions or concerns involving accounting, internal controls or auditing matters will be directed to the Audit Committee chairman. Concerns regarding other matters will be directed to the individual director or committee named in the correspondence. If no identification is made, the matter will be directed to the Executive Committee of the Board.

The Board of Directors met four times during 2013. Each member attended at least 75 percent of the combined total of meetings of the Board of Directors and the committees of the Board on which each served. All Company directors are expected to attend each annual stockholder meeting. All directors attended the annual stockholder meeting in April 2013.

**Table of Contents**

The Board has four standing committees. The members of each committee are listed below with the chairman of each committee listed first:

<b>Audit</b>	<b>Compensation</b>	<b>Executive</b>	<b>Nominating and Governance</b>
<b>Committee</b>	<b>Committee</b>	<b>Committee</b>	<b>Committee</b>
J. M. Fluke, Jr.	G. M. E. Spierkel	M. C. Pigott	C. R. Williamson
L. Kaufmann	A. J. Carnwath	J. M. Fluke, Jr.	A. J. Carnwath
R. C. McGeary	K. S. Hachigian	J. M. Pigott	J. M. Fluke, Jr.
G. M. E. Spierkel	C. R. Williamson		M. A. Schulz
			W. R. Staley (ret. 1/13/14)

**Audit Committee**

The Audit Committee has responsibility for the selection, evaluation and compensation of the independent auditors and approval of all services they provide. The Committee reviews the Company’s annual and quarterly financial statements, monitors the integrity and effectiveness of the audit process and reviews the corporate compliance programs. It monitors the Company’s system of internal controls over financial reporting and oversees the internal audit function.

The Audit Committee charter describes the Committee’s responsibilities. It is posted at [www.paccar.com/company/corporateresponsibility/auditcommittee.asp](http://www.paccar.com/company/corporateresponsibility/auditcommittee.asp). All four members of the Audit Committee meet the independence and financial literacy requirements of the SEC and NASDAQ rules. The Board of Directors designated committee chairman J. M. Fluke, Jr. as Audit Committee financial expert. The Committee met six times in 2013.

**Compensation Committee**

The Compensation Committee has responsibility for reviewing and approving salaries and other compensation matters for executive officers. It administers the Long Term Incentive Plan, the Senior Executive Yearly Incentive Compensation Plan and the Deferred Compensation Plan. The Committee establishes base salaries and annual and long-term performance goals for executive officers. It considers the opinion of the CEO when determining compensation for the executives that report to him. It also evaluates the CEO’s performance annually in executive session. It approves the attainment of annual and long-term goals by the executive officers.

The Committee has authority to employ a compensation consultant to assist in the evaluation of the compensation of the Company’s CEO and other executive officers. In 2013, the Committee retained Mercer, a wholly owned subsidiary of Marsh and McLennan Companies, to provide a market analysis of the compensation of the Named Executive Officers. Mercer analyzed data from the Peer Companies and two industry surveys and reported its results to the Committee. Mercer was paid \$29,500 for this project. Mercer and its affiliates were retained by Company management to provide insurance brokerage and human resource consulting services. The consultants providing these services were not the same consultants that advised the Compensation Committee. The aggregate fees paid for those other services in fiscal year 2013 were \$157,498. The Committee did not review or approve the other services provided by Mercer and its affiliates to the Company, as those services were approved by management in the normal course of business. The Committee conducted an independence assessment and no conflict of interest was identified.

The Compensation Committee charter describes the Committee’s responsibilities. It is posted at [www.paccar.com/company/corporateresponsibility/compensationcommittee.asp](http://www.paccar.com/company/corporateresponsibility/compensationcommittee.asp). All four members of the Compensation Committee meet the director independence requirements of the SEC and NASDAQ rules and the outside director requirements of Section 162(m) of the Internal Revenue Code. The Committee met five times in 2013.

## **Table of Contents**

### **Nominating and Governance Committee**

The Nominating and Governance Committee is responsible for evaluating director candidates and selecting nominees for approval by the independent members of the Board of Directors. It also makes recommendations to the Board on corporate governance matters including director compensation.

The Committee has established written criteria for the selection of new directors, which are available at [www.paccar.com/company/corporateresponsibility/boardguidelines.asp](http://www.paccar.com/company/corporateresponsibility/boardguidelines.asp). The criteria state that a diversity of perspectives, skills and business experience relevant to the Company's global operations should be represented on the Board including international business, manufacturing, financial services and aftermarket customer programs. To be a qualified director candidate, a person must have achieved significant success in business, education or public service, must not have a conflict of interest and must be committed to representing the long-term interests of the stockholders. In addition, the candidate must have the following attributes:

the highest ethical and moral standards and integrity;

the intelligence, education and experience to make a meaningful contribution to board deliberations;

the commitment, time and diligence to effectively discharge board responsibilities;

mature judgment, objectivity, practicality and a willingness to ask difficult questions; and

the commitment to work together as an effective group member to deliberate and reach consensus for the betterment of the stockholders and the long-term viability of the Company.

The Committee considers the names of director candidates submitted by management and members of the Board of Directors. It also considers recommendations by stockholders submitted in writing to: Chairman, Nominating and Governance Committee, PACCAR Inc, 11<sup>th</sup> Floor, P.O. Box 1518, Bellevue, WA 98009. Nominations by stockholders must include information set forth in the Company Bylaws. The Committee engages the services of a private search firm from time to time to assist in identifying and screening director candidates. The Committee evaluates qualified director candidates and selects nominees for approval by the members of the Board of Directors. Mr. McGeary and Mr. Schulz, both director nominees who have not previously stood for election, were presented to the Committee by a third-party search firm.

The Nominating and Governance Committee charter describes the Committee's responsibilities. It is posted at [www.paccar.com/company/corporateresponsibility/nominatingcommittee.asp](http://www.paccar.com/company/corporateresponsibility/nominatingcommittee.asp). Each of the five Committee members meets the independence requirements of the NASDAQ rules. The Committee met four times in 2013.

### **Executive Committee**

The Executive Committee acts on routine Board matters when the Board is not in session. The Committee did not take action in 2013.

**Table of Contents****COMPENSATION OF DIRECTORS**

The following table provides information on compensation for non-employee directors who served during the fiscal year ending December 31, 2013:

**Summary Compensation**

Name	Fees Earned or	Stock	All	Total
	Paid in Cash	Awards	Other	
	(a) (\$)	(b) (\$)	(c) (\$)	(d) (\$)
A. J. Carnwath	117,500	100,014	0	217,514
J. M. Fluke, Jr.	135,000	100,014	0	235,014
K. S. Hachigian	130,000	100,014	0	230,014
L. Kaufmann	115,000	100,014	0	215,014
R. C. McGeary	110,000	100,014	0	210,014
J. M. Pigott	105,000	100,014	0	205,014
M. A. Schulz	125,000	100,014	5,000	230,014
G. M. E. Spierkel	135,000	100,014	0	235,014
W. R. Staley (retired 1/13/14)	145,000	100,014	0	245,014
C. R. Williamson	130,000	100,014	0	230,014

- (a) Fees for non-employee directors include the 2013 annual retainer of \$75,000, paid quarterly, board meeting fees of \$7,500 per meeting and committee meeting fees of \$5,000 per meeting. In addition, an annual \$10,000 retainer is payable quarterly to the lead director and the chairman of the audit, compensation, and nominating and governance committees. If newly elected or retired during the calendar year, the non-employee director receives a prorated retainer. A single meeting attendance fee is paid when a board and committee meeting are held on the same day. L. Kaufmann and C. R. Williamson elected to defer retainer and meeting fees into stock units pursuant to the terms of the RSDC Plan described in the Narrative below.
- (b) The grant date fair value of the restricted stock award granted on January 2, 2013, to non-employee directors was \$100,014. See Note Q to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. On December 31, 2013, non-employee directors held unvested shares of restricted stock as follows: A. J. Carnwath 6,284; M. A. Schulz 3,925; W. R. Staley 6,284; C. R. Williamson 6,284. In lieu of restricted stock, some non-employee directors held unvested restricted stock units including additional deferred stock units credited as a result of dividend equivalents earned with respect to the restricted stock units as follows: J. M. Fluke, Jr. 6,591; K. S. Hachigian 6,591; L. Kaufmann 3,545; R. C. McGeary 3,432; J. M. Pigott 6,591; G. M. E. Spierkel 6,591.
- (c) Directors may participate in the Company's matching gift program on the same basis as U.S. salaried employees. Under the program, the PACCAR Foundation matches donations participants make to eligible educational institutions up to a maximum annual donation of \$5,000 per participant.
- (d) L. Kaufmann and C. R. Williamson deferred some or all of their cash compensation earned in 2013 into stock units. None of the deferred compensation earned a rate of interest that exceeded 120 percent of the applicable federal long-term rate prescribed under Section 1274(d) of the Internal Revenue Code. Perquisites were less than the \$10,000 reporting threshold.

**Table of Contents****Narrative to Director Compensation Table**

In addition to the cash compensation described in footnote (a) above, on the first business day of the year, each non-employee director receives \$100,000 in restricted stock or restricted stock units under the Restricted Stock and Deferred Compensation Plan for Non-Employee Directors. ( RSDC Plan ). The number of shares received is determined by dividing \$100,000 by the closing price of a share of Company stock on the first business day of the year and rounding up to the nearest whole share. Non-employee directors newly elected during the calendar year receive a prorated award to reflect the number of calendar quarters the director will serve in the year of election. Restricted shares vest three years after the date of grant or upon retirement, death or disability. Directors receive dividends and voting rights on all shares during the vesting period. If non-employee directors elect to receive a credit to the stock unit account in lieu of a grant of restricted stock, the account is credited with the number of shares otherwise applicable to the grant of restricted stock and subject to the same vesting conditions. Those electing restricted stock units have no voting rights in the stock and dividends earned are treated as if they were reinvested at the closing price of Company stock on the date the dividend is payable. Vested amounts credited to the restricted stock unit account are distributed in shares of common stock.

Non-employee directors may elect to defer all or a part of their cash retainer and fees to an income account or to a stock unit account under the RSDC Plan. The income account accrues interest at a rate equal to the simple combined average of the monthly Aa Industrial Bond yield averages for the immediately preceding quarter and is compounded quarterly. Stock unit accounts are credited with the number of shares of Company common stock that could have been purchased at the closing price on the date the cash compensation is payable. Thereafter dividends earned are treated as if they were reinvested at the closing price of Company stock on the date the dividend is payable. The balances in a director's deferred accounts are paid out at or after retirement or termination in accordance with the director's deferred account election. The balance in the stock unit account is distributed in shares of the Company's common stock. The aggregate number of deferred stock units accumulated in the deferral account of participating non-employee directors is reflected in Footnote (b) to the Stock Ownership Table on page 4.

The Company provides transportation or reimburses non-employee directors for travel and out-of-pocket expenses incurred in connection with their services. It also pays or reimburses directors for expenses incurred to participate in continuing education programs related to their service as a PACCAR director.

**Stock Ownership Guidelines for Non-Employee Directors**

All non-employee directors are expected to hold at least three times their annual cash retainer in Company stock and/or deferred stock units while serving as a director. Directors have three years from date of appointment to attain this ownership threshold. All non-employee directors with three or more years of service are in compliance as of January 1, 2014.

**ITEM 2: PROPOSAL TO APPROVE THE SECOND AMENDED AND RESTATED PACCAR INC RESTRICTED STOCK AND DEFERRED COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS**

The Company recommends to the stockholders the approval of the Second Amended and Restated PACCAR Inc Restricted Stock and Deferred Compensation Plan for Non-Employee Directors (the Plan). The Plan was approved by the stockholders in 2004. The Plan was last amended and restated in December 2008.

The primary purpose of seeking stockholder approval of the Plan is to comply with NASDAQ Rule 5635 that requires the Plan to be approved by stockholders every ten years. The proposal does not seek to increase the number of shares available for issuance under the Plan or materially amend the Plan provisions. In approving the Plan, the Company is requesting that the stockholders confirm the existing share reserve of the Plan including the 889,063 shares available for issuance of new awards as of December 31, 2013.

**Table of Contents**

*Stock Available for Grants.* As of December 31, 2013, there are 889,063 shares of PACCAR common stock available for new awards of the 1,096,875 shares previously authorized for issuance under the Plan. The Plan reserves shares of PACCAR common stock for benefits under this Plan, which are authorized but unissued shares of stock or treasury shares. The number of shares granted shall be adjusted to prevent dilution in the event of a stock split, a stock dividend, or other event that increases or decreases the number or value of issued and outstanding shares.

*Summary of Benefits.* Each non-employee director receives a grant of restricted stock or restricted stock units ( RSUs ) annually in addition to their cash compensation. There are currently nine non-employee directors. The number of shares or units granted equals the number of shares of common stock that the Base Amount could have purchased at the Fair Market Value on the grant date (rounded up to the nearest whole share). The Base Amount is currently \$100,000 per non-employee director. The Board of Directors, in its sole discretion, may adjust the Base Amount for any grant date, provided that the adjusted Base Amount is established no later than the December 31 immediately prior to the grant date on which such Base Amount shall be effective. The grant date is defined as the first business day of each calendar year. Non-employee directors elected during the calendar year receive a prorated grant per the Plan formula. Plan participants have all the rights of a stockholder with respect to the restricted shares from the date of the grant, including the right to vote the shares and to receive cash dividends on those shares. Each grant is evidenced by a written Restricted Stock Grant Agreement.

Participants may elect to receive RSUs in lieu of restricted stock by making an election in December of the year prior to the grant. Those electing RSUs will not have voting rights in the stock and dividends earned will be treated as if those dividends had been invested in additional shares of common stock at the Fair Market Value on the date the dividend is payable. Vested amounts credited to the Restricted Stock Unit Account shall be distributed in shares of common stock either in a single payment or in substantially equal annual installments (over a period not to exceed 15 years), after termination of service as a director as specified by the non-employee director on the deferral election form. Any fractional shares will be paid in cash.

The restricted shares or RSUs cannot be sold or otherwise transferred for three years from the grant date. Shares that have not been held for the three-year holding period at the time the director terminates service with the Company are forfeited unless termination is due to retirement, disability, or death. In those circumstances restricted shares are not forfeited and immediately become unrestricted.

The Plan also allows non-employee directors to defer their cash compensation into an income account with interest at a variable rate or into a stock unit account representing the value of an equal number of shares of PACCAR stock that could have been purchased at the Fair Market Value on the date the non-employee director's cash compensation is payable. Stock units are credited with dividend equivalents in the same amount as dividends paid on PACCAR shares. Upon retirement or termination from the Board, the stock unit account will be distributed in shares of PACCAR stock. The director may elect to receive payment from the income or stock unit account in a single distribution or in installments over a period of up to 15 years.

*New Plan Benefits.* The number of shares of restricted stock and RSUs received in the future under the Plan by any participant is not determinable at this time. The following table sets forth the restricted stock and RSUs granted in 2013 per the Plan provisions.

<b>Name and Position</b>	<b>Dollar Value</b>	<b>Number of Restricted Shares or RSUs</b>
Non-Executive Director Group(10)	\$1,000,140	21,490

*Plan Administration.* The Plan is administered by the Nominating and Governance Committee of the Board of Directors. The Committee has sole discretion to make all determinations necessary for Plan administration. Its decisions are binding.

**Table of Contents**

*Amendment or Termination.* The Board of Directors or the Nominating and Governance Committee may amend or terminate the Plan at any time. Approval by the Company's stockholders shall be obtained only if required by law.

*Change in Control.* In the event of a change in control all restricted stock will become unrestricted. The Board of Directors may pay out the deferred accounts within 30 days from the date the change in control occurs.

*Federal Tax Consequences.* Grants of restricted stock are taxable to the non-employee director as ordinary income in the year the grant becomes unrestricted unless the director elects to be taxed in the year the stock is granted under IRS Section 83(b). Deferred accounts are taxable as ordinary income in the year received. The Company is entitled to receive a corresponding deduction for the year that monies are included in the non-employee director's taxable income.

*Effective Date and Duration.* This Plan is effective January 1, 2014 if approved by the stockholders of the Company at the 2014 Annual Meeting. It will remain in effect until April 29, 2024 unless the Plan is terminated earlier by the Committee or the Board of Directors. The text of the Plan is set forth in Appendix A to this proxy statement.

The foregoing summary of its principal features does not purport to be complete and is subject to and qualified in its entirety by Appendix A.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ITEM 2.**

**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information as of December 31, 2013 regarding compensation plans under which PACCAR equity securities are authorized for issuance. All equity compensation plans have been approved by the stockholders.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options and other rights	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	5,262,726(1)	41.11(2)	16,756,019(3)
Total	5,262,726		16,756,019

- (1) The number of securities reported includes those issuable under the PACCAR Long Term Incentive Plan (LTIP) for Company executives and the Restricted Stock and Deferred Compensation Plan for Non-Employee Directors (RSDC Plan). Included in this total are 350,826 shares which represent deferred cash awards payable in stock.
- (2) The weighted-average exercise price does not include the securities that represent deferred cash awards.
- (3) Securities available for future issuance are authorized under the following two plans: (i) 15,866,956 shares under LTIP, and (ii) 889,063 shares under the RSDC Plan.

**Table of Contents**

**POLICIES AND PROCEDURES FOR TRANSACTIONS WITH RELATED PERSONS**

Under its Charter, the Audit Committee of the Board of Directors is responsible for reviewing and approving related-person transactions as set forth in Item 404 of the Securities and Exchange Commission Regulation S-K. The Committee will consider whether such transactions are in the best interests of the Company and its stockholders. The Company has written procedures designed to bring such transactions to the attention of management. Management is responsible for presenting related-person transactions to the Audit Committee for review and approval.

**COMPENSATION OF EXECUTIVE OFFICERS**

**COMPENSATION DISCUSSION AND ANALYSIS (CD&A)**

**Executive Summary of Company Performance and Compensation Practices**

In 2013, the Company reported record revenue and earned the third highest net income in its history. The Company has delivered 75 consecutive years of net income, paid annual dividends every year since 1941 and delivered average annual total return to stockholders over the past ten years of 12.3 percent versus 7.4 percent for the S&P 500.

***Key 2013 Financial Results and Business Highlights:***

Record revenue of \$17.1 billion

\$1.17 billion in net income – the third best in Company history

Record stockholder equity of \$6.6 billion

34.9 percent total return to stockholders in 2013

Dividends increased by 8 percent compared to 2012

New DAF truck assembly plant opened in Ponta Grossa, Brasil

New Kenworth, Peterbilt and DAF trucks launched

Record PACCAR Financial pre-tax income

Record PACCAR Parts revenue

***Key Compensation Practices***

The Company emphasizes pay for performance and equity-based incentive programs designed to compensate executives for generating outstanding performance for stockholders.



## Edgar Filing: PACCAR INC - Form DEF 14A

Incentive-based pay ( Pay for Performance ) represents approximately 78 percent of the Named Executive Officers' target total compensation.

Net income is the key metric in the annual incentive compensation program.

The key metrics for long-term incentive cash awards are three-year growth in net income, return on sales and return on capital compared with Peer Companies.

Executive officer stock ownership guidelines align executives' long-term goals with that of stockholders.

There are no employment contracts, excise tax gross ups or significant perquisites for executive officers.

The Company does not backdate, reprice or grant equity awards retroactively.

## **Table of Contents**

### **Compensation Program Objectives and Structure**

PACCAR's compensation programs are directed by the Compensation Committee of the Board of Directors (the Committee), composed exclusively of independent directors. The programs are designed to attract and retain high-quality executives, link incentives to the Company's excellent performance and align the interests of management with those of stockholders. These programs offer compensation that is competitive with companies that operate in the same industries globally. PACCAR's goal is to achieve superior performance measured against its industry peers. The Company has delivered 75 consecutive years of net income, paid annual dividends every year since 1941 and delivered excellent stockholder returns. The Company has significantly outperformed the S&P 500 index for the ten-year period ending December 31, 2013 by delivering an average annual total return to stockholders of 12.3 percent versus 7.4 percent for the S&P 500. The compensation framework has these components:

#### ***Short-term performance compensation:***

Salary. The fixed amount of compensation for performing day-to-day responsibilities.

Annual incentive cash compensation. Annual cash awards that focus on the attainment of Company yearly profitability and individual business unit goals.

#### ***Long-term performance compensation:***

An equity- and cash-based Long Term Incentive Plan (LTIP) that focuses on long-term growth in stockholder value, including three-year performance versus industry peers as measured by growth in net income, return on sales and return on capital. The equity-based compensation consists of stock options and restricted stock.

The Committee believes that this combination of salary, cash incentives and equity-based compensation provides appropriate incentives for executives to deliver superior short- and long-term business performance and stockholder returns.

The Named Executive Officers and all U.S. salaried employees participate in the Company's retirement programs. The U.S.-based Named Executive Officers also participate in the Company's unfunded Supplemental Retirement Plan described on page 30, which provides a retirement benefit to those employees affected by the maximum benefit limitations permitted for qualified plans by the Internal Revenue Code and other qualified plan benefit limitations.

The Company does not provide any other significant perquisites or executive benefits to its U.S.-based Named Executive Officers. Mr. Schippers, a Named Executive Officer based in the Netherlands, receives certain perquisites standard in Europe including a leased car and allowance for incidentals.

### **Stockholder Approval for the Company's Compensation Programs**

In 2011, stockholders voted on an advisory basis to approve the compensation of the Named Executive Officers (known as a say on pay vote) as well as voting in favor of a triennial say on pay schedule. Over 95 percent of the shares voted were in favor of say on pay and over 60 percent of the shares voted were in favor of a triennial say on pay schedule. The Committee believes these stockholder votes affirm the Company's conservative approach to executive compensation. The 2014 stockholder say on pay vote is included in this proxy statement as Item 3.

### **Executive Compensation Criteria**

The Committee considers a number of important factors when reviewing and determining executive compensation, including Company performance, business unit performance, individual performance and compensation for executives among peer organizations. The Committee also considers the opinion of the Chief Executive Officer when determining compensation for the executives that report to him.

**Table of Contents**

**Industry Compensation Comparison Groups.** The Committee periodically utilizes information from published compensation surveys as well as compensation data from peer companies to determine if compensation for the Chief Executive Officer and other executive officers is competitive with the market. The Committee believes that comparative compensation information should be used in its deliberations. It does not specify a target compensation level for any given executive but rather a range of target compensation. The Committee has discretion to determine the nature and extent to which it will use comparative compensation data.

**Role of Compensation Consultants.** The Committee periodically retains a compensation consultant to assess the competitiveness of the Company's compensation programs. In 2013, the Committee retained Mercer, a subsidiary of Marsh and McLennan, to provide a market analysis of the compensation for the Named Executive Officers. In deciding to retain Mercer, the Committee considered the independence requirements as set forth in the Securities and Exchange Commission rule on compensation advisor independence. Mercer analyzed data from the Peer Companies as well as a Mercer Survey Report of 983 companies and a Towers Watson Survey Report of 473 companies and provided the Committee with aggregated data from the two surveys. Mercer reported that the base salaries of the Named Executive Officers were near the market median but target annual and long-term incentive percentages were significantly below the market median for the U.S.-based Named Executive Officers. The Committee considered the Mercer findings in its decision to adjust the 2014 annual incentive compensation target award percentages as discussed on page 24.

**Peer Companies.** As part of its analysis of comparative data, the Committee includes compensation data from Peer Companies. In particular, the Company measures its financial performance against Peer Companies when evaluating achievement of the cash portion of the LTIP Company performance goal and applicable goals under the restricted stock share match program. The Committee reviews the composition of the Peer Companies annually to ensure the companies are appropriate for comparative purposes. The Peer Companies for the 2011-2013 and 2012-2014 LTIP cycles are listed below and on page 38 as the Current Peer Group Index and were approved as Peer Companies for the 2013-2015 LTIP cycle.

<b>Company Name</b>	<b>FY 2013 Revenue (in \$ billions)</b>
<b>PACCAR Inc</b>	<b>17.1</b>
AGCO Corporation	10.8
Caterpillar Inc.	55.7
Cummins Inc.	17.3
Dana Holding Corporation	6.8
Deere & Company	37.8
Eaton Corporation	22.0
Meritor Inc	3.7
Navistar International Corp	10.8
Oshkosh Corporation	7.7
Scania AB	14.0
AB Volvo	41.9

## Table of Contents

### Elements of Total Compensation

The Company's executive compensation program is comprised of base salaries, annual incentive cash, and long-term incentives consisting of cash, stock options and restricted stock.

**Compensation Mix.** The Company's executive compensation program structure includes a balance of annual and long-term incentives, cash and Company equity. At higher levels of responsibility within the Company, the senior executives have a larger percentage of total compensation at risk based on Company long-term performance incentive programs. For 2013, the Committee approved target allocations as displayed below. The Company believes these allocations promote its objectives of profitable growth and superior long-term results which benefit stockholders.

**Base Salary.** Base salary provides a level of compensation that is competitive with industry peer companies to attract and retain high-caliber executives. The midpoints of the base salary ranges are set at approximately the market median of the 2011 Mercer report with the minimum salary at 70 percent of the midpoint and the maximum salary at 130 percent of the midpoint. An executive officer's actual salary relative to this salary range reflects his or her responsibility, experience, tenure with the Company and individual performance.

The Committee reviews base salaries every 12 to 24 months and may or may not approve changes. Consistent with this practice, the Committee reviewed the salary of each Named Executive Officer in 2013. The Committee considered performance, the addition of new responsibilities and the midpoint in the Mercer 2011 report in its review of salaries. The Chief Executive Officer suggested salary revisions for the other Named Executive Officers. The Committee approved the salary percentage increase for 2013 as follows: R. J. Christensen, 4.2 percent; and H. C. Schippers, 16.1 percent. The Committee believes that the base salary of each Named Executive Officer is appropriate based on scope of responsibility, tenure with the Company, individual performance and competitive pay practices.

**Annual Incentive Cash Compensation ( IC ).** This program provides yearly cash incentives for the Named Executive Officers to achieve annual Company profit and business unit goals. The Committee sets annual performance goals and a threshold, target and maximum award for each Named Executive Officer, expressed as a percentage of base salary. 2013 awards are measured on a sliding scale as follows:

% of Goal Achieved	<70%	70%	85%	100%	115%	130%	140%	and above
% of Target Paid	0%	40%	70%	100%	130%	160%	200%	

A hallmark of the annual cash incentive program has been a consistent and rigorous focus on achieving the Company's annual net profit goal. The Committee has chosen net profit, not EBITDA or operating profit, as the chief financial metric for this program because it is the primary indicator of corporate performance to

**Table of Contents**

stockholders. When setting incentive compensation goals for the Named Executive Officers, the Committee believes that corporate performance is an appropriate measure of individual performance. Accordingly, 100 percent of the goal for the Chief Executive Officer and a substantial portion of the 2013 goal for each of the Named Executive Officers is based upon Company net profit performance. The net profit goal is proposed by Company management and approved by the Committee before or within the first 90 days of each year. The target level represents an amount of net profit that the Committee determines is attainable with outstanding performance under expected economic conditions. The remaining goals for the other Named Executive Officers are based upon individual business unit or leadership criteria determined by the Chief Executive Officer. The Committee assesses annual goal achievement and approves awards for the Named Executive Officers.

IC Awards for the Named Executive Officers are subject to the terms of the Senior Executive Yearly Incentive Compensation Plan (the "IC Plan") approved by the stockholders as required by Section 162(m) of the Internal Revenue Code. The maximum amount that may be paid to any eligible participant in any year under the Plan is \$4,500,000. The Committee, in its sole discretion, may reduce or eliminate (but not increase) any award earned by the Named Executive Officers based on an assessment of individual performance.

For 2013, the Company's net profit target was \$1.10 billion and actual net profit achieved was \$1.17 billion. The Committee approved award payments of 113 percent of the target award, which corresponds with achievement of 106 percent of the net profit goal for each Named Executive Officer. The Committee approved an overall payment for R. E. Armstrong of 126 percent of target consisting of 109 percent achievement of his divisional profit goal and 180 percent for his leadership goal of growth initiatives in international markets. The Committee approved an overall payment for R. J. Christensen of 156 percent of target consisting of 200 percent achievement of the business leadership goal of construction of the DAF factory in Brasil and commencement of truck production. The Committee approved an overall payment for D. D. Sobic of 129 percent of target consisting of 110 percent achievement of the divisional profit goal and 168 percent achievement for the leadership goal related to achievement of record parts revenue. The Committee approved an overall payment for H. C. Schippers of 128 percent of target consisting of 109 percent achievement of the divisional profit goal and 180 percent achievement for his leadership in the launch of the DAF CF and LF Euro 6 vehicles. The Committee did not exercise discretion to make modifications to any award. The following table outlines the 2013 goals and incentive awards for each Named Executive Officer:

Name and Principal Position	Performance Measure	Target Award as a % of		Award Achieved as a % of Target
		Base Salary	Performance Measure as a % of Target	
M. C. Pigott	Company Profit Goal	110	100	113
Chairman & Chief Executive Officer				
R. E. Armstrong	Company Profit Goal	75	60	126
President	Business Unit Profit		20	
	Business Leadership		20	
R. J. Christensen	Company Profit Goal	70	50	156
Executive Vice President & Chief Financial Officer	Business Leadership		50	
D. D. Sobic	Company Profit Goal	65	50	129
Executive Vice President	Business Unit Profit		20	
	Business Leadership		30	
H. C. Schippers	Company Profit Goal	55	30	128
Vice President	Business Unit Profit		45	



**Table of Contents**

**Long-Term Incentive Compensation (LTIP).** The Company's long-term incentive program is based on a multi-year performance period and provides annual grants of stock options, restricted stock and cash incentive awards. The LTIP aligns the interests of stockholders with those of executives to focus on long-term growth in stockholder value. The 2013 target for each element of the long-term compensation program for each Named Executive Officer is calculated as a percentage of base salary as indicated in the table below:

<b>Name</b>	<b>Long-Term Cash</b>	<b>Stock Options</b>	<b>Restricted Stock</b>
M. C. Pigott	150%	355%	170%
R. E. Armstrong	90%	270%	90%
R. J. Christensen	80%	265%	80%
D. D. Sobic	70%	230%	80%
H. C. Schippers	50%	145%	50%

**Long-term incentive compensation cash award.** This program focuses on long-term growth in stockholder value by providing an incentive for superior Company performance that is measured against Peer Companies' performance over a three-year period. Company performance is measured by three-year growth in net income, return on sales and return on capital (weighted equally) as compared to the Peer Companies ( Company Performance Goal ). Named Executive Officers and all executive officers are eligible for a long-term incentive cash award based upon three-year performance goals approved by the Committee with a new performance period beginning every calendar year. For the 2013-2015 cycle, the Committee approved the following goals:

<b>Name</b>	<b>Financial Performance and Individual Performance</b>	
	<b>Measures for LTIP 2013-2015 Cycle</b>	<b>Performance Measure as a % of Target</b>
M. C. Pigott	Company Performance Goal	75
	Business Leadership	25
R. E. Armstrong	Company Performance Goal	50
	Business Unit Profit	50
R. J. Christensen	Company Performance Goal	50
	Business Unit Profit	25
	Business Leadership	25
D. D. Sobic	Company Performance Goal	50
	Business Unit Profit	25
	Business Leadership	25
H. C. Schippers	Company Performance Goal	25
	Business Unit Profit	50
	Business Leadership	25

The Committee believes that three-year growth in net income, return on sales and return on capital are excellent indicators of the Company's performance against the Peer Companies. The Company has used this rigorous comparison goal for over 15 years. During that period the Company ranked above 50 percent of the Peer Companies in 12 of the 15 years demonstrating excellent performance against the Peer Companies and providing superior returns to stockholders. The target amount will be earned if the Company's financial performance ranks above

## Edgar Filing: PACCAR INC - Form DEF 14A

at least half of the Peer Companies. The maximum cash award amount will be earned if the Company's financial performance ranks above all of the Peer Companies. No award will be earned if the Company's financial performance ranks in the bottom 25 percent of the Peer Companies.

The remaining portion of the award for certain of the Named Executive Officers is based upon individual business unit and leadership goals determined by the Chief Executive Officer similar to those described above for



**Table of Contents**

the annual incentive cash plan, measured over a three-year performance cycle. The Committee assesses goal achievement for the prior three-year period in April following completion of the applicable cycle and approves awards for the Named Executive Officers at such time. Long-term incentive cash awards are measured on a sliding scale as indicated below:

% of Goal Achieved	<75%	75%	100%	125%	150% and above
% of Target Paid	0%	50%	100%	150%	200%

In April 2013, the Committee determined cash awards for the three-year period 2010-2012 ending December 31, 2012. For the 2010-2012 LTIP cycle, the Company ranked tenth among the twelve Peer Companies and none of the Named Executive Officers earned an award on the Company Performance Goal. The cash award for M. C. Pigott was based 100 percent on the Company Performance Goal. The Committee approved an overall cash award of 0% due to the Company being below the 75 percent target level.

The other Named Executive Officers had goals in addition to the Company Performance Goal. The award for R. E. Armstrong was based 25 percent on business unit profit and 25 percent on business unit growth and performance. The Committee determined that R. E. Armstrong exceeded each goal and approved an overall payout of 73.2 percent of target. The award for R. J. Christensen was based 25 percent on business unit profit and 25 percent on business unit leadership. The Committee determined that R. J. Christensen exceeded each goal and approved an overall payout of 90 percent of target. The award for D. D. Sobic was based 25 percent on business unit profit and 25 percent on business unit leadership. The Committee determined that D. D. Sobic exceeded each goal and approved an overall payout of 87.6 percent of target. The award for H. C. Schippers was based 50 percent on business unit profit and 20 percent on business unit leadership. The Committee determined that Mr. Schippers did not meet the profit goal but exceeded his leadership goal and it approved an overall payout of 66.3 percent of target. The Committee did not exercise discretion to modify any awards. The long-term cash awards for the 2011-2013 LTIP cycle have not been determined as of the date of this proxy statement because Peer Group comparison data was not available.

The maximum amount that may be paid to any eligible participant in any year under this program is \$6,500,000. The award is also subject to the conditions of payment set forth in the Long Term Incentive Plan, as required by Section 162(m) of the Internal Revenue Code. The Committee, in its sole discretion, may reduce or eliminate (but not increase) any award earned by the Named Executive Officers based on an assessment of individual performance.

*Stock options.* The Committee includes stock options in its compensation program because stock options link the interests of executives directly with stockholders' interests through increased individual stock ownership. Stock options are granted by the Committee once each year on a predetermined date after the fourth-quarter earnings release and are not repriced. The number of options is determined by multiplying the executive's base salary on the grant date by a target award percentage and dividing by the average closing price of the Company's stock on the first five trading days of the year. The exercise price of stock options is the closing price of the Company's stock on the date of grant. Options become exercisable at the end of a three-year vesting period and expire ten years after the date of grant. A participant who elects early retirement under a Company retirement plan has 12 months from retirement to exercise vested options. Vesting may be accelerated in the event of a change in control.

The Compensation Committee granted stock options on February 6, 2013 in accordance with the target award percentages listed on page 20. All stock options granted in 2013 vest and become exercisable on January 1, 2016, and remain exercisable until February 5, 2023 unless the participant's employment terminates earlier for reasons other than retirement, or the participant is demoted to an ineligible position.

*Annual restricted stock program.* Performance-based restricted stock is included in the program because it provides an opportunity for executives to earn Company equity with performance-based compensation deductible

---

## **Table of Contents**

under Section 162(m) of the Internal Revenue Code. The Committee sets a Company performance goal during the first 90 days of the year and restricted stock grants are made in the following year if the Committee determines that the performance goal is achieved. The number of restricted shares is determined by multiplying the executive's base salary by the target award percentage and dividing by the average closing price of the Company's stock on the first five trading days of the year. The restricted shares are valued at the closing price of the Company's stock on the date of grant. The restricted stock vests 25 percent on the first day of the month following the grant and an additional 25 percent on each succeeding first of January. Unvested shares are forfeited upon termination unless termination is by reason of death, disability or retirement. All shares vest immediately upon a change in control. Each Named Executive Officer has the same rights as all other stockholders to vote the shares and receive cash dividends.

On February 7, 2014, the Committee determined that the 2013 performance goal of four percent return on revenue was achieved and approved restricted stock consistent with the target award percentages listed on page 20. The restricted stock granted on February 6, 2013 for 2012 performance is included on page 27.

### **Compensation of the Chief Executive Officer**

The Committee applies the same compensation philosophy, policies and comparative data analysis to the Chief Executive Officer as it applies to the other Named Executive Officers. The Chief Executive Officer is the only officer with overall responsibility for all corporate functions and, as a result, has a greater percentage of his total compensation based on the overall financial performance of the Company. During the 17-year leadership of M. C. Pigott (January 1, 1997-December 31, 2013) the Company stock returned 1,479 percent to stockholders and provided an average annual total return of 17.6 percent versus the S&P 500 average annual total return of 7.5 percent. In 2013, the Company achieved record share in many markets and significantly expanded its business worldwide. The Company constructed and opened a new DAF truck factory in Brasil, designed and launched new Kenworth, Peterbilt and DAF truck ranges and a new family of engines, and has growing business in China and India. The Committee reviewed the Chief Executive Officer's base salary in 2013 and made no changes. R. E. Armstrong has been promoted to Chief Executive Officer effective April 27, 2014 with a salary of \$1.1 million and Mr. M. C. Pigott will become Executive Chairman with a salary of \$500,000.

The Company has a share match program that enables the Chief Executive Officer to purchase Company stock either by exercising stock options or through open market purchases. He may receive a matching award of restricted stock if rigorous performance goals are met. The program provides for a maximum of 562,500 restricted shares and an annual limit of 150,000 shares. Restricted match shares vest after five years if the Committee certifies that the Company's earnings per share growth over the same five-year period meets or exceeds at least 50 percent of the Peer Companies. The Chief Executive Officer has the same rights as all other stockholders to vote the shares and receive cash dividends. With certain exceptions, all restricted match shares will be forfeited if the performance threshold is not achieved or if the Chief Executive Officer terminates employment with the Company during the vesting period. If the purchased shares are sold during the vesting period, an equal number of restricted match shares will be forfeited. In April 2013, the Committee determined that the Company did not meet or exceed the Peer Company performance goal for the five-year period 2008-2012 and 150,000 restricted matching shares previously granted to M. C. Pigott were forfeited. No matching shares were granted under this program in 2013.

### **Deferral of Annual and Long-Term Performance Awards**

The Committee administers a Deferred Compensation Plan described on page 31 which allows eligible employees to defer cash incentive awards into an income account or a stock unit account. Both accounts are unfunded and unsecured. This program provides tax and retirement planning benefits to participants and market-based returns on amounts deferred. Certain deferrals are subject to Internal Revenue Code Section 409A. Payouts from the income account are made in cash either in a lump sum or in a maximum of 15 annual installments in

---

## **Table of Contents**

accordance with the executive's payment election. Stock unit accounts are paid out in Company stock either in a one-time distribution or in a maximum of 15 annual installments. Participation in the Deferred Compensation Plan is voluntary.

### **Stock Ownership Guidelines**

The Company's executive officers are required to meet stock ownership guidelines that reflect alignment of senior executives' long-term goals with that of the Company stockholders. The minimum number of shares of company stock and deferred stock units expected to be held by each category of executive officer is as follows: the Chief Executive Officer five times base salary; other Named Executive Officers three times base salary; and other executive officers one times base salary. Company Executive Officers have three years from the January first after the Executive first holds the qualifying position to attain the stock ownership target. The Committee reviews compliance with the guidelines each year.

### **Effect of Post-Termination Events**

The Company has no written employment agreement with its Chief Executive Officer or with any Named Executive Officer. Executive compensation programs provide full benefits only if a Named Executive Officer remains with the Company until normal retirement at age 65. In general, upon a termination without cause a Named Executive Officer retains vested benefits but receives no enhancements or severance. In a termination for cause, the executive forfeits all benefits except those provided under a qualified pension plan. Long-term cash incentives are prorated upon retirement at age 65 or death and are awarded at the maximum level upon a change in control. The annual restricted stock grants become fully vested at retirement, death or a change in control. The Company believes that the benefits described in this section help it attract and retain its executive officers by providing financial security in the event of certain qualifying terminations of employment or a change in control of the Company. The fact that the Company provides these benefits does not materially affect other decisions that the Company makes regarding compensation. The Company maintains a separation pay plan for all U.S. salaried employees that provides a single payment of up to six months of base salary in the event of job elimination in a business restructuring or reduction in the workforce. The U.S. based Named Executive Officers are eligible for the benefit on the same terms as any other eligible U.S. salaried employee.

### **Effect of Accounting or Tax Treatment**

Company policy is to structure compensation arrangements that preserve tax deductions for executive compensation under Section 162(m) of the Internal Revenue Code. Cash awards paid to Named Executive Officers under the IC Plan and under the LTIP are subject to certain conditions of payment intended to preserve deductibility imposed under Section 162(m). The Committee establishes a yearly funding plan limit equal to a percentage of the Company's net income and assigns each Named Executive Officer a percentage of each fund. In 2013 the funding limit for the Named Executive Officers under the IC Plan equaled three percent of the Company's net income and the limit for the LTIP equaled one percent of the Company's cumulative net income for the 2013-2015 performance cycle. The Committee can exercise discretion to reduce or eliminate any award earned by the Named Executive Officers based on an assessment of individual performance against preapproved goals. The cash incentive awards to the Named Executive Officers under both plans are subject to the pre-established funding and plan limits even if some or all of the executive's performance goals have been exceeded. The Committee retains the flexibility to pay compensation that is not fully deductible within the limitations of Section 162(m) if it determines that such action is in the best interests of the Company and its stockholders in order to attract, retain and reward outstanding executives. The Company offers compensation programs that are intended to be tax efficient for the Company and for the executive officers.

### **Changes for 2014**

The Board of Directors promoted R. E. Armstrong to Chief Executive Officer and named M. C. Pigott as Executive Chairman of the Board of Directors, effective April 27, 2014. Mr. Armstrong was also elected to the

**Table of Contents**

PACCAR Board of Directors effective April 27, 2014. He is currently President of PACCAR and succeeds M. C. Pigott who has served as the Company's Chief Executive Officer and Chairman since 1997. The Board of Directors also elected R. J. Christensen as President and Chief Financial Officer, effective April 27, 2014 with a salary of \$730,000. Mr. Christensen is currently Executive Vice President and Chief Financial Officer.

Effective January 1, 2014, the annual incentive compensation target award percentages are as follows:

<b>Named Executive Officer</b>	<b>2013 Target % of Base Salary</b>	<b>2014 Target % of Base Salary</b>
M. C. Pigott, Chairman and Chief Executive Officer	110	125
R. E. Armstrong, President	75	95
R. J. Christensen, Executive Vice President and CFO	70	90
D. D. Sobic, Executive Vice President	65	80
H. C. Schippers, Vice President	55	65

The Committee also modified certain LTIP benefits for executives who retire after January 1, 2014 at or after age 62 and before age 65 with 15 years of Company service ( Eligible Executives ). None of the Company's executive officers are currently eligible for these benefits due to age and/or service thresholds.

LTIP cash awards will be prorated based on the number of months the Eligible Executive worked during the three-year performance cycle. The cash award, if any, shall be payable following the end of the calendar year in which the performance period ends. Previously, Eligible Executives did not qualify for LTIP cash awards for incomplete cycles. The change compensates Eligible Executives for their achievements during the cycle.

Stock options outstanding and exercisable on the retirement date may be exercised at any time within ten years from the date of grant. Previously, Eligible Executives had one year to exercise vested options. The change enables executives a longer term to exercise options earned during their career.

Stock option agreements, effective with the 2014-2016 LTIP cycle, will include a provision that an Eligible Executive who retires will receive a prorated portion of the stock option grant based upon the number of months worked during the three-year performance cycle. The prorated portion will vest upon retirement and the remaining unvested options granted will be forfeited. Previously, Eligible Executives forfeited stock options not vested on their retirement date.

**Conclusion**

The Company's compensation programs are designed and administered in a manner consistent with its conservative executive compensation philosophy and guiding principles. The programs emphasize the retention of key executives and appropriate rewards for excellent results. The Committee monitors these programs in recognition of the dynamic marketplace in which the Company competes for talent. The Company will continue to emphasize pay-for-performance and equity-based incentive programs that compensate executives for results that are consistent with generating outstanding performance for its stockholders.

**Table of Contents****COMPENSATION COMMITTEE REPORT**

The Committee reviewed and discussed the Compensation Discussion and Analysis Section (CD&A) for 2013 with management. Based on the Committee's review and its discussions with management, the Committee recommends to the Board of Directors that the Compensation Discussion and Analysis Section be included in the Company's proxy statement for the 2014 Annual Meeting.

**THE COMPENSATION COMMITTEE**

G. M. E. Spierkel, Chairman

A. J. Carnwath

K. S. Hachigian

C. R. Williamson

**Summary Compensation**

The following table provides information on compensation for the Named Executive Officers for the last three fiscal years that ended December 31, 2013:

Name and Principal Position	Year	Salary (\$)	Stock Awards (Restricted Stock) (\$)(a)	Option Awards (\$)(b)	Non-Equity Incentive Plan Compensation (\$)(c)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(d)	All Other Compensation (\$)(e)	Total (\$)
M. C. Pigott Chairman and Chief Executive Officer	2013	1,420,000	2,196,200	1,497,905	1,765,060	934,910	12,750	7,826,825
	2012	1,420,000	2,319,134	1,698,522	1,652,596	2,176,420	12,500	9,279,172
	2011	1,417,308	3,123,223	1,527,086	3,124,000	3,375,543	12,250	12,579,410
R. E. Armstrong President	2013	750,000	442,338	601,730	706,500	566,609	12,750	3,079,927
	2012	678,846	424,703	622,005	519,675	804,743	12,500	3,062,472
	2011	621,731	151,096	516,201	918,324	958,629	12,250	3,178,231
R. J. Christensen Executive Vice President & Chief Financial Officer	2013	623,942	311,912	492,164	684,688	534,830	12,750	2,660,286
	2012	564,423	269,558	456,135	503,513	997,473	12,500	2,803,602
	2011	505,000	155,035	335,547	780,832	1,080,153	12,250	2,868,817
D. D. Sobic Executive Vice President	2013	575,000	296,518	392,988	481,764	332,414	12,750	2,091,434
	2012	557,211	284,519	456,135	424,976	772,918	12,500	2,508,259
	2011	516,250	209,171	354,169	773,476	943,513	12,250	2,808,829
H. C. Schippers(f) Vice President	2013	396,022	75,349	157,404	284,993	0	98,092	1,011,860
	2012	355,629	39,175	200,832	201,269	41,090	92,948	930,943
	2011	370,428	30,704	154,860	361,737	52,094	87,974	1,057,797

(a) Represents the grant date fair value of restricted stock awards on February 6, 2013, February 2, 2012, and February 3, 2011, calculated in accordance with FASB ASC Topic 718. For additional information, refer to Notes in the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the applicable fiscal year as shown in footnote (b) below.

- (b) Represents the aggregate grant date fair value of stock options granted under the Company's Long Term Incentive Plan (LTIP) on February 6, 2013, February 2, 2012, and February 3, 2011 calculated in accordance with FASB ASC Topic 718. For additional accounting information, including the Company's Black-Scholes-Merton option pricing model assumptions, refer to Note Q in the Consolidated Financial Statements in the Company's Annual Reports on Form 10-K for 2013, 2012 and 2011.

**Table of Contents**

- (c) Amounts for 2013 represent the awards earned under the IC Plan in 2013 that are determined and paid in 2014. Cash awards earned under the LTIP for the 2011-2013 cycle will not be determined until late April 2014. Non-Equity Incentive Plan Compensation amounts for 2012 and 2011 include awards under both plans.
  
- (d) Represents the interest earned under the Deferred Compensation Plan in excess of 120 percent of the applicable federal long-term rate as prescribed under Section 1274(d) of the Internal Revenue Code (M. C. Pigott \$2,130; R. E. Armstrong \$0; R. J. Christensen \$5,045; D. D. Sobic \$0; H. C. Schippers \$0); and the aggregate change in value during 2013 of benefits accrued under the Company's qualified defined-benefit retirement plan and Supplemental Retirement Plan (M. C. Pigott \$932,780; R. E. Armstrong \$566,609; R. J. Christensen \$529,785; D. D. Sobic \$332,414; H. C. Schippers \$0) and change in value of benefits accrued under the DAF defined benefit plan for H. C. Schippers of \$(24,712). Company retirement benefits are described in the accompanying Pension Benefits disclosure.
  
- (e) Represents Company matching contributions to the Company's 401(k) Savings Investment Plan of \$12,750 for each U.S.-based Named Executive Officer for 2013, \$12,500 for 2012, and \$12,250 for 2011. Amount for H. C. Schippers includes a Company contribution of \$76,238 to a defined contribution plan available to DAF employees in the Netherlands and perquisites of \$21,854 for a leased vehicle and an allowance for business-related incidentals. Aggregate perquisites were less than \$10,000 for the other Named Executive Officers.
  
- (f) Mr. Schippers was paid in euros and amounts listed were converted to U.S. dollars based on the rate on the last day of the month in which the compensation was paid or granted. Amounts listed for Mr. Schippers for pension, potential and future payments in this proxy statement used the euro conversion rate on December 31, 2013 of 1.3743.

**Table of Contents****Grants of Plan-Based Awards**

The following table shows all plan-based awards granted to the Named Executive Officers during 2013:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards Target (#)	All Other Stock Awards: Number of Shares or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock And Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)					
<b>M. C. Pigott</b>									
Restricted Stock(a)	2/6/2013				45,936				2,196,200
Stock Options(a)	2/6/2013						108,714	47.81	1,497,905
LTIP Cash(a)		145,227	2,130,000	4,260,000					
Annual Incentive Cash(b)		624,800	1,562,000	3,124,000					
<b>R. E. Armstrong</b>									
Restricted Stock(a)	2/6/2013				9,252				442,338
Stock Options(a)	2/6/2013						43,672	47.81	601,730
LTIP Cash(a)		30,682	675,000	1,350,000					
Annual Incentive Cash(b)		45,000	562,500	1,125,000					
<b>R. J. Christensen</b>									
Restricted Stock(a)	2/6/2013				6,524				311,912
Stock Options(a)	2/6/2013						35,720	47.81	492,164
LTIP Cash(a)		22,727	500,000	1,000,000					
Annual Incentive Cash(b)		87,500	437,500	875,000					
<b>D. D. Sobic</b>									
Restricted Stock(a)	2/6/2013				6,202				296,518
Stock Options(a)	2/6/2013						28,522	47.81	392,988
LTIP Cash(a)		18,295	402,500	805,000					
Annual Incentive Cash(b)		29,900	373,750	747,500					
<b>H. C. Schippers</b>									
Restricted Stock(a)	2/6/2013				1,576				75,349
Stock Options(a)	2/6/2013						11,424	47.81	157,404
LTIP Cash(a)		4,151	182,659	365,318					
Annual Incentive Cash (b)		22,312	223,120	446,240					

(a) Represents grants and awards under the LTIP described on page 20. The grant date fair value of restricted stock awards is the number of restricted shares multiplied by the closing price of Company stock on the grant date of \$47.81.

(b) Represents awards under the Company's Senior Executive Yearly Incentive Compensation Plan (IC) described on page 18.



**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

The following table shows all outstanding stock option and restricted stock awards held by the Named Executive Officers on December 31, 2013:

Name	Option Awards(a)					Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Vesting Date	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(e)
M. C. Pigott	173,043	0	32.1111	1/1/08	1/20/15	34,452(b)	2,038,525
	147,343	0	32.2267	1/1/09	1/26/16	26,816(c)	1,586,703
	112,266	0	44.5600	1/1/10	1/31/17	9,283(d)	549,275
	98,956	0	45.7400	1/1/11	1/30/18		
	194,004	0	30.8100	1/1/12	2/06/19		